

**SOUTHEAST KANSAS SPECIAL
EDUCATION INTERLOCAL #637
PITTSBURG, KANSAS**

Regulatory Basis Financial Statement and
Independent Auditors' Report with
Regulatory Required Supplemental Information
For the Fiscal Year Ended June 30, 2013

**SOUTHEAST KANSAS SPECIAL EDUCATION INTERLOCAL #637
PITTSBURG, KANSAS**

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Diehl Banwart Bolton

Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Southeast Kansas Special Education Interlocal #637
Pittsburg, Kansas 66762

We have audited the accompanying fund summary statement of receipts, expenditures, and unencumbered cash - regulatory basis, of the Southeast Kansas Special Education Interlocal #637 (Interlocal), Pittsburg, Kansas, a Municipal Financial Reporting Entity as of and for the fiscal year ended June 30, 2013 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the applicable audit requirements of the *Kansas Municipal Audit and Accounting Guide*. Those standards and the *Kansas Municipal Audit and Accounting Guide* require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

Board of Education
Southeast Kansas Special Education Interlocal #637
Pittsburg, Kansas

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Interlocal to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Interlocal as of June 30, 2013 or changes in financial position and cash flows thereof for the fiscal year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Interlocal as of June 30, 2013, and the aggregate receipts and expenditures for the fiscal year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the June 30, 2013 summary statement of receipts, expenditures, and unencumbered cash – regulatory basis (financial statement) as a whole. The summary of expenditures – actual and budget – regulatory basis, individual fund schedules of receipts and expenditures – actual and budget – regulatory basis, (Schedules 1 and 2 as listed in the table of contents), are presented for purposes of additional analysis and are not a required part of the June 30, 2013 financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2013 financial statement. The June 30, 2013 information has been subjected to the auditing procedures applied in the audit of the June 30, 2013 financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the June 30, 2013 financial statement or to the June 30, 2013 financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the June 30, 2013 supplementary information is fairly stated in all material respects in relation to the June 30, 2013 financial statement as a whole, on the basis of accounting described in Note 1.

Board of Education
Southeast Kansas Special Education Interlocal #637
Pittsburg, Kansas

The prior year actual column presented in the individual fund schedules of receipts and expenditures – actual and budget – regulatory basis (Schedule 2 as listed in the table of contents), are also presented for comparative analysis and are not a required part of the prior year financial statement upon which we rendered an unqualified opinion dated November 21, 2012. The June 30, 2012 financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration, Office of Management Analysis and Standards at the following link <http://da.ks.gov/ar/muniserv/>. Such prior year comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2012 financial statement. The prior year comparative information was subjected to the auditing procedures applied in the audit of the June 30, 2012 financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the June 30, 2012 financial statement or to the June 30, 2012 financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the prior year comparative information is fairly stated in all material respects in relation to the June 30, 2012 financial statement as a whole, on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2014 on our consideration of the Interlocal's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Interlocal's internal control over financial reporting and compliance.

Diehl Banwart Bolton CPAs PA

DIEHL, BANWART, BOLTON, CPAs PA

February 7, 2014
Pittsburg, Kansas

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637**

Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Fiscal Year Ended June 30, 2013

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add	
					Encumbrances and Accounts Payable	Ending Cash Balance
Special Purpose Funds:						
Special Education	\$ 2,680,805	\$ 18,465,630	\$ 18,719,297	\$ 2,427,137	\$ 8,953	\$ 2,436,090
Vocational Technical	-	14,076	14,076	-	8,000	8,000
Life Career Skills	1,162	1,171	1,104	1,229	-	1,229
Interlocal Revolving	-	699	699	-	-	-
Mini Grants	2,965	19,261	19,466	2,760	188	2,948
Pritchett Grant	1,759	-	795	964	-	964
Targeted Improvement	-	96,795	96,795	-	6,519	6,519
Total Entity (Excluding Agency Funds)	\$ 2,686,690	\$ 18,597,631	\$ 18,852,231	\$ 2,432,090	\$ 23,660	\$ 2,455,750

Composition of Cash	
General Checking Account.....	\$ (541,686)
Payroll Liabilities.....	(1,065,029)
Petty Cash.....	1,000
Sweep Account.....	4,061,465
Total Cash	<u>\$ 2,455,750</u>

The notes to the financial statement are an integral part of this statement.

**SOUTHEAST KANSAS SPECIAL EDUCATION INTERLOCAL #637
PITTSBURG, KANSAS**

**NOTES TO THE FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of Southeast Kansas Special Education Interlocal #637 (Interlocal), has been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Interlocal's accounting policies follow. Note 1 describes how the Interlocal's accounting policies differ from accounting principles generally accepted in the United States of America.

Reporting Entity

The Interlocal is a municipal corporation governed by an elected thirteen-member board. Each board member represents a member Unified School District of the Interlocal. This financial statement presents the Interlocal (the primary government). The Interlocal has developed criteria to determine whether outside agencies, with activities which benefit the members of the Interlocal, should be included within its financial reporting entity. This criteria include but are not limited to, whether the Interlocal exercises financial accountability, selection of governing authority, designation of management, ability to significantly influence operations, scope of public service and special financing relationships. Based on the above criteria, the Interlocal has determined that no outside agency meets the criteria; therefore, no outside agency has been included as a related municipal entity in this financial statement.

Basis of Presentation - Fund Accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds comprise the financial activities of the Interlocal:

REGULATORY BASIS FUND TYPES

Special Purpose Funds – to account for the proceeds of specific tax levies and other specific revenue sources (other than capital projects and tax levies for long-term debt) that are intended for specified purposes.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The Interlocal has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the special purpose funds (unless specifically exempted by statute). Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding fiscal year on or before August 1.
2. Publication in the local newspaper of the proposed budget and a notice of public hearing on the budget on or before August 5.
3. Public hearing on or before August 15, but at least ten days after the publication of a notice of hearing.
4. Adoption of the final budget on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented as supplemental information for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All legal annual operating budgets are prepared using the cash basis of accounting, modified further by the recording of accounts payable and encumbrances. Revenues are recognized when cash is received. Expenditures include cash disbursements, accounts payable and encumbrances. Encumbrances are commitments of the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for the following special purpose funds (Life Career Skills, Interlocal Revolving, Mini Grants, Pritchett Grant, and Targeted Improvement). Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes or by the use of internal spending limits established by the governing body.

Compensated Absences

Employees may accrue from 10 to 12 days of sick leave each year. An employee may accumulate up to 120 days of sick leave. At retirement the Interlocal pays \$45 per day of accumulated unused sick leave of certified employees that qualify under the early retirement program. Classified employees are paid \$25 per day of accumulated sick leave under the early retirement plan. No other payments are made for unused sick leave.

The Interlocal determines a liability for compensated absences when the following conditions are met:

1. The Interlocal's obligation relating to the employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated and is material to the financial statements.

In accordance with the above criteria, the Interlocal has not recorded a liability for sick pay or vacation pay.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

The financial statement and the regulatory required supplemental schedules have been prepared in order to show compliance with the cash basis and budget laws of Kansas. As shown, there were no apparent violations with the cash basis and budget laws of Kansas.

3. CASH IN BANK AND DEPOSITORY SECURITY

K.S.A. 9-1401 establishes the depositories which may be used by the Interlocal. The statute requires banks eligible to hold the Interlocal's funds have a main or branch bank in the county in which the Interlocal is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Interlocal has no other policies that would further limit interest rate risk.

3. CASH IN BANK AND DEPOSITORY SECURITY (Continued)

K.S.A. 12-1675 limits the Interlocal's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Interlocal has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Interlocal may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Interlocal's deposits may not be returned to it. State statutes require the Interlocal's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at June 30, 2013.

At June 30, 2013 the Interlocal's carrying amount of deposits was \$2,455,750 and the bank balance was \$4,983,399. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,980 was covered by federal depository insurance, \$4,732,419 was collateralized with securities held by the pledging financial institutions' agents in the Interlocal's name with a market value of \$6,094,978.

4. PENSION PLAN

Plan Description

The Interlocal participates in the Kansas Public Employees Retirement System ("KPERS"), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100; Topeka, Kansas 66603) or by calling 1-888-275-5737.

Funding Policy.

K.S.A. 74-4919 and 74-4921 establishes the KPERS member-employee contribution rates. Effective July 1, 2009, KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member contribution rate of 4% of covered salary for Tier 1 members and 6% of covered salary for Tier 2 members. Member employees' contributions are withheld by their employer and paid to KPERS according to the provisions of section 414(h) of the Internal Revenue Code.

The State of Kansas is required to contribute the statutory required employers share.

5. POST EMPLOYMENT BENEFITS

Retirement

A professional certified employee is eligible for early retirement if such person: (a) is currently a professional certified employee of the Interlocal; (b) will be at least 55 years of age on or before June 30 of the retiring year; (c) has 10 years or more of service with the Interlocal. Retirement is entirely voluntary and at the discretion of an eligible employee. Retirement benefits are 15% of the annual salary in the primary teaching contract for the final year of service for 5 years plus \$45 per day of accumulated unused sick leave. The Interlocal funds these benefits on a pay as you go basis. The early retirement benefits are paid by making contributions to a section 403(b) Plan. For the year ended June 30, 2013, the Interlocal contributed \$192,351 to the plan. In addition, as detailed in Note 9, the Interlocal owes an additional \$333,185 to former employees that have already retired.

Participation in Group Health Insurance Plan

As provided by K.S. A. 12-5040, retired employees are eligible to participate in the Interlocal's group health insurance plan until they have reached the age of 65. While each retiree pays the full amount of the applicable premium, conceptually, the Interlocal is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Interlocal makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the Interlocal under this program.

6. RISK MANAGEMENT

The Interlocal is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The Interlocal continues to carry commercial insurance for these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7. REIMBURSED EXPENSES

The Interlocal records reimbursable expenditures in the fund which makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

8. CONTINGENCIES

The Interlocal receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass through aid. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the Special Education Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the Interlocal at June 30, 2013.

9. **LONG-TERM OBLIGATIONS**

At June 30, 2013, the Interlocal was committed to making the following payments to retired employees:

Year Ended <u>June 30</u>	Required <u>Payments</u>
2014	\$ 139,990
2015	96,621
2016	58,591
2017	37,983
2018	-
	<u>\$ 333,185</u>

10. **SUBSEQUENT EVENTS**

Subsequent events have been evaluated through February 7, 2014, the report release date of the financial statements. There are no subsequent events recognized in these financial statements or no other subsequent events disclosed in the notes to the financial statements.

**REGULATORY REQUIRED
SUPPLEMENTAL INFORMATION**

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637**

Summary of Expenditures - Actual and Budget
Regulatory Basis
For the Fiscal Year Ended June 30, 2013

Funds	Certified Budget	Adjustment to		Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures		Variance - Over (Under)
		Comply with Legal Maximum	Legal Maximum			Charged to Current Year Budget	Current Year Budget	
Special Purpose Funds:								
Special Education	\$ 19,460,309	\$ -	\$ -	-	\$ 19,460,309	\$ 18,719,297	\$ 14,076	\$ (741,012)
Vocational Technical Cooperative	15,000	-	-	-	15,000			(924)
	<u>\$ 19,475,309</u>							

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
SPECIAL EDUCATION FUND**

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Fiscal Year Ended June 30, 2013

(With Comparative Actual Totals for the Prior Year Ended June 30, 2012)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Local Sources				
Charges for services	\$ 3,737,695	\$ 4,485,233	\$ 4,485,234	\$ (1)
Interest on idle funds	10,510	13,737	30,000	(16,263)
Medicaid revenue	627,917	1,019,520	630,000	389,520
Other	25,367	7,028	82,026	(74,998)
State Sources				
State aid	10,428,163	10,357,234	11,126,739	(769,505)
Federal Sources				
Earlychildhood	82,262	82,026	-	82,026
Title VI B	2,538,583	2,500,852	2,500,852	-
Total Cash Receipts	<u>17,450,497</u>	<u>18,465,630</u>	<u>\$ 18,854,851</u>	<u>\$ (389,221)</u>
Expenditures				
Instruction	16,754,680	17,001,286	\$ 17,045,595	\$ (44,309)
Support Services				
Student Support	896,288	745,355	814,288	(68,933)
Special Area Admin. Services	577,387	628,974	642,863	(13,889)
Other Supplemental Services	67,163	67,258	632,976	(565,718)
Operations and Maintenance	261,783	251,066	299,587	(48,521)
Transportation	28,674	25,358	25,000	358
Total Expenditures Subject to Budget	<u>18,585,975</u>	<u>18,719,297</u>	<u>\$ 19,460,309</u>	<u>\$ (741,012)</u>
Receipts Over (Under) Expenditures	(1,135,478)	(253,667)		
Unencumbered Cash, Beginning	<u>3,816,283</u>	<u>2,680,805</u>		
Unencumbered Cash, Ending	<u>\$ 2,680,805</u>	<u>\$ 2,427,137</u>		

SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
VOCATIONAL TECHNICAL COOPERATIVE FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Fiscal Year Ended June 30, 2013
(With Comparative Actual Totals for the Prior Year Ended June 30, 2012)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance - Over (Under)
Cash Receipts				
Local Sources				
District Contributions	\$ 15,111	\$ 14,076	\$ 15,000	\$ (924)
Total Cash Receipts	15,111	14,076	\$ 15,000	\$ (924)
Expenditures				
Instruction	15,111	14,076	\$ 15,000	\$ (924)
Total Expenditures Subject to Budget	15,111	14,076	\$ 15,000	\$ (924)
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	-	-		
Unencumbered Cash, Ending	\$ -	\$ -		

SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
LIFE CAREER SKILLS REVOLVING FUND
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Fiscal Year Ended June 30, 2013
(With Comparative Actual Totals for the Prior Year Ended June 30, 2012)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Program receipts	\$ 4,581	\$ 1,171
Total Cash Receipts	4,581	1,171
Expenditures		
Support Services		
Operations and Maintenance	4,301	1,104
Total Expenditures	4,301	1,104
Receipts Over (Under) Expenditures	280	67
Unencumbered Cash, Beginning	882	1,162
Unencumbered Cash, Ending	\$ 1,162	\$ 1,229

SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
INTERLOCAL REVOLVING FUND
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Fiscal Year Ended June 30, 2013
(With Comparative Actual Totals for the Prior Year Ended June 30, 2012)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Background check reimbursements	\$ 800	\$ 699
Miscellaneous	-	-
	800	699
Total Cash Receipts		
Expenditures		
Program Expenditures	800	699
Total Expenditures	800	699
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	\$ -	\$ -

SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
MINI GRANTS FUND
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Fiscal Year Ended June 30, 2013
(With Comparative Actual Totals for the Prior Year Ended June 30, 2012)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Miscellaneous	\$ 6,980	\$ 19,261
Total Cash Receipts	6,980	19,261
Expenditures		
Smart start expenditures	-	-
Other expenditures	9,204	19,466
Total Expenditures	9,204	19,466
Receipts Over (Under) Expenditures	(2,224)	(205)
Unencumbered Cash, Beginning	5,189	2,965
Unencumbered Cash, Ending	\$ 2,965	\$ 2,760

SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
PRITCHETT GRANT
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Fiscal Year Ended June 30, 2013
(With Comparative Actual Totals for the Prior Year Ended June 30, 2012)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Program receipts	\$ -	\$ -
Total Cash Receipts	-	-
Expenditures		
Program expenditures	2,850	795
Total Expenditures	2,850	795
Receipts Over (Under) Expenditures	(2,850)	(795)
Unencumbered Cash, Beginning	4,609	1,759
Unencumbered Cash, Ending	\$ 1,759	\$ 964

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
TARGETED IMPROVEMENT FUND**

Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Fiscal Year Ended June 30, 2013

(With Comparative Actual Totals for the Prior Year Ended June 30, 2012)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	\$ 95,795	\$ 96,795
Total Cash Receipts	95,795	96,795
Expenditures		
Instruction	14,793	11,976
Support Services		
Student Support	965	-
Instructional Support	80,037	84,819
Total Expenditures	95,795	96,795
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	\$ -	\$ -

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637**

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

FEDERAL GRANTOR / THROUGH GRANTOR / TITLE	PASS PROGRAM	FEDERAL CFDA NUMBER	AMOUNT RECEIVED	AMOUNT EXPENDED
<u>U.S. Department of Education</u>				
Passed Through the State of Kansas				
Department of Education:				
Special Education Grants to States		84.027	\$ 2,597,647	\$ 2,597,647
Special Education Preschool Grants		84.173	<u>82,026</u>	<u>82,026</u>
TOTALS			<u>\$ 2,679,673</u>	<u>\$ 2,679,673</u>

Note: The Schedule of Expenditures of Federal Awards has been prepared under the regulatory basis of accounting as established in the Kansas Municipal Audit and Accounting Guide. Under the regulatory basis of accounting, revenues are recognized when cash is received. Expenditures include cash disbursements, accounts payable and encumbrances. Encumbrances are commitments of the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract.

Diehl Banwart Bolton

Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Education
Southeast Kansas Special Education Interlocal #637
Pittsburg, Kansas 66762

Report on Compliance for Each Major Federal Program

We have audited the Southeast Kansas Special Education Interlocal #637's (Interlocal) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Interlocal's major federal programs for the year ended June 30, 2013. The Interlocal's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibilities

Our responsibility is to express an opinion on compliance for each of the Interlocal's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Interlocal's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Interlocal's compliance.

Opinion on Each Major Federal Program

In our opinion, the Interlocal complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Interlocal is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Interlocal's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Interlocal's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Diehl Banwart Bolton CPA's PA

DIEHL, BANWART, BOLTON, CPAs PA

February 7, 2014
Pittsburg, Kansas

Diehl Banwart Bolton

Certified Public Accountants P.A.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Southeast Kansas Special Education Interlocal #637
Pittsburg, Kansas 66762

We have audited the financial statement of Southeast Kansas Special Education Interlocal #637 (Interlocal) as of the year ended June 30, 2013, and have issued our report thereon dated February 7, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Interlocal's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Interlocal's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Interlocal's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2013-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Interlocal's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to Management of the Interlocal in a separate letter dated February 7, 2014.

Interlocal's Response to Findings

The Interlocal's response to the findings identified in our audit is described in the Corrective Action Plan. We did not audit the Interlocal's response and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Diehl Banwart Bolton CPAs PA

DIEHL, BANWART, BOLTON, CPAs PA

February 7, 2014
Pittsburg, Kansas

**SOUTHEAST KANSAS SPECIAL EDUCATION INTERLOCAL #637
PITTSBURG, KANSAS**

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:

- Adverse for departures from accounting principles generally accepted in the United States of America due to preparation of financial statements in accordance with the statutory basis of accounting.
- Unqualified opinion on the statutory basis financial statements.

Internal control over financial reporting:

- Material weakness(es) identified? __ YES X NO
- Significant Deficiency(ies) identified that
are not considered to be material weaknesses? NONE
X YES __ REPORTED

Noncompliance material to financial statements noted? __ YES X NO

FEDERAL AWARDS:

Internal control over major programs:

- Material weakness(es) identified? __ YES X NO
- Significant deficiency(ies) identified that
are not considered to be material weaknesses? NONE
__ YES X REPORTED

Type of auditors' report issued on compliance for major programs: UNQUALIFIED

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of Circular A-133? __ YES X NO

IDENTIFICATION OF MAJOR PROGRAMS:

<u>CFDA #</u>	<u>NAME OF PROGRAM</u>
84.027 & 84.173	IDEA Cluster

Auditee qualified as low-risk auditee? __ YES X NO

SECTION II - FINANCIAL STATEMENT FINDINGS

Significant Deficiency

2013- 1 Drafting Financial Statements

Condition: As auditors, we provide significant assistance with adjusting entries, as well as determining which disclosures are required under generally accepted accounting standards and the regulatory basis of accounting.

Criteria: Internal controls should be in place that provide a reasonable assurance that the financial statements are appropriate in form and contain the required disclosures.

Cause: Relying upon the independent auditors is a significant deficiency in internal controls as they can not be considered part of the Interlocal's internal control.

Effect: The Interlocal relies on independent auditors to determine the financial statements are in the correct form and include the proper disclosures.

Recommendation: None

Response: The Interlocal agrees with the finding. The Interlocal's response is in the attached Corrective Action Plan.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SEK Interlocal #637

SOUTHEAST KANSAS SPECIAL EDUCATION INTERLOCAL #637

June 30, 2013 Financial Statements

Corrective Action Plan

Audit Finding 2013-1

Interlocal #637 has always relied upon its auditors to provide significant assistance with adjusting entries and with determining which disclosures were required under the regulatory basis of accounting. While Interlocal #637 understands that this is a significant deficiency in our internal controls, we believe it is the most cost effective manner for us to produce our financial statements. Our accounting staff concentrates on providing the reports needed for management and regulatory purposes. We believe it would be inefficient and cost prohibitive for our staff to attempt to stay current on all the disclosure requirements of the regulatory basis of accounting. We do not plan on making any changes at this time. However, we will monitor this situation and periodically determine if it is cost effective for us to perform these functions.